



THE CITY OF SAN DIEGO

## FACT SHEET

# SANDERS ANNOUNCES BEGINNINGS OF PLAN TO PAY DOWN PENSION OBLIGATION

### *MAYOR COMMUNICATES MESSAGE OF REFORM AND CONFIDENCE TO FINANCIAL MARKETS*

JANUARY 31, 2006

#### **Sanders to Conceptually Propose Using Tobacco Money to Pay Down Pension Debt**

- On Monday, February 6, Mayor Jerry Sanders will ask the City Council to conceptually approve the leverage of approximately \$10.3 million in annual employee pick up savings by securitizing an equivalent amount of the City's tobacco settlement revenues for a period of up to 22 years.
- **The City would leverage \$10.3 million annually in settlement revenues as securitization for approximately \$100 million in cash that would be contributed to the pension fund.** As part of the strategy to pay down the pension obligation, the Mayor's financial reform team is considering other options to help whittle down the debt. This represents the start of that plan.
- The Mayor will ask the City Council to approve the sale of publicly marketed bonds known as a "tobacco bond issuance vehicle." Because of the financial market's confidence in the predictability of tobacco revenues, this is an exception to the rule of San Diego not having access to public market financing. Cities and counties across California have previously used tobacco money as securitization for a diverse list of projects.
- If the Council agree with the concept, the Mayor's staff would return to the Council in the April or May with a detailed plan. Because tobacco settlement revenue securitization is a well tested transaction, it could be executed quickly.
- The benefits of the securitization transaction are that it would not require any additional credit backing; it would not require disclosure of any City financial information; it relies solely on the sale of the revenues and the pledge of revenues (estimated \$10.3 million) until

the bonds are paid off; there is no general fund recourse; and the transaction would not affect the City's existing debt levels.

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### **Sanders & Financial Recovery Team Visit Bond Rating Firms**

- On Thursday of last week, Mayor Jerry Sanders and members of his administration took their first, of what will be many, trips to visit the three most prominent bond rating agencies: Fitch Ratings; Moody's Investors Service; and Standard & Poor's. Fitch and Moody's have continued to rate the City's projects as investor grade while S&P has suspended the City's ratings.
- **The visits were intended to educate and build trust in the new administration, an important first step toward accessing the public finance markets for major capital improvement projects that have been delayed for years.**
- **The Mayor anchored the City's presentation** that included discussion of:
  - the new management team at City Hall;
  - his responsibility and accountability for the actions of City government;
  - the structural changes being made;
  - the fact that every government process is undergoing review as part of a systematic engineering of municipal government;
  - the fact that the Mayor is refocused on financial reforms to stabilize the organization for the long-term, including a truly balance budget this year;
  - the fact that the City Council and IBA understand that this is going to be a very lean budget year;
  - the plan to institute remediation measures to tighten internal controls and reporting;
  - the new spirit of cooperation among all of the elected officials, including the Mayor's relationship with the City Attorney and the City Council;
  - schedule for once again accessing the public finance markets;
  - bankruptcy being a last resort. The Mayor stated that, "I have not seen a problem yet at the City that is not solvable with tighter fiscal controls and a great deal of discipline."
- In return, the City heard the following from the bond rating agencies:
  - the agencies have historically supported San Diego projects and want to do so again;
  - the agencies think highly of the strong regional economy. One analyst referred to San Diego as having "one of the strongest economies in the country right now." The analyst further commented that San Diego is in a far better position right now than many other cities.
  - Frequent, accurate and timely communication is critical (especially on financial and regulatory transactions);

- the Mayor's leadership is essential, especially with respect to lasting financial reforms; the agencies were pleased that the team is off to a fast start;
- cooperation among elected officials is essential – political disharmony is disruptive;
- a real balanced budget is important;

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- **Next steps:**

- Frequent communication
- Audit Committee results; audited financial statements; and FY07 budget.

### **Sanders Plans to Communicate Reform Message Loud and Clear to the Financial Markets**

- **The Mayor plans to ramp up communication with the bond rating firms.**
- The Mayor plans to **aggressively outreach to major institutional investors**, both through in-person visits and conference calls. These meetings are intended to educate and generate renewed interest in San Diego.
- In May, the Mayor will speak at the **National Federation of Municipal Analysts** (May 3/Los Angeles). Membership in the Federation totals nearly 1,000, representing the major participants in the municipal market, including institutional investors, bond rating agencies, bond insurance companies, portfolio managers, investment banking firms and financial advisors.
- The Mayor will speak at the **California Public Finance Conference** (San Francisco/September 25-27). The conference will feature 500 of the biggest participants in the state's municipal finance field.
- The Mayor is **looking for every opportunity to communicate San Diego's message of reform**. For example, **this Friday, the Mayor will speak at *The Bond Buyer's* Military Housing Conference in San Diego**. The audience will include prominent national developers, investment bankers, lawyers, guarantors, and investors. (*The Bond Buyer* is the nation's leading chronicler of public finance. It publishes a daily newspaper and has a web site.)
- As part of this aggressive outreach plan, **the Mayor plans to court the financial press:**
  - While in San Francisco, the Mayor met with *The Bond Buyer* and *Bloomberg News*, the financial news wire. (The Mayor has spoken with both on several occasions.) When on the East Coast, the Mayor will pursue interviews with outlets like CNBC to generate further interest in San Diego's financial reforms.

### **City gets Great Response to Private Placement RFP**

***Responses are indicative of 1) Confidence in new City Hall Administration; 2) Strong Regional Economy; and 3) "Essentiality" of Basic City Services***

- Solely with the intention of testing the market's interest in a private placement of debt, an RFP was issued by the City's financial advisor three weeks ago with proposals due back no later than January 23, 2006. In a sign of confidence, twelve RFP's were sent out; eleven responded and an additional unsolicited response was received. Further

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evidence of the new confidence can be found in the rates that were quoted. Most of the fixed rates were in the mid 4% range. If the City were able to access the public markets at the moment, rates for this kind of placement would be in the high 3% to mid 4% range (fixed).

#### **Sander's Priority #1: Fiscal Stability and Reform**

- The Mayor and his team are **moving aggressively** to get their arms around the City's financial situation:
  - Work has already begun on the Mayor's FY07 Budget Proposal due April 15<sup>th</sup>.
  - Later this week, the Mayor will announce his plans for ballot propositions aimed at financial reform.